



## FORM 51-102F1

### MANAGEMENT DISCUSSION AND ANALYSIS THREE MONTH PERIOD ENDED MARCH 31, 2005

The following discussion and analysis, prepared as of May 12, 2005, should be read together with the unaudited consolidated financial statements for the three month period ended March 31, 2005 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the audited financial statements for the year ended December 31, 2004, and the Management Discussion and Analysis for 2004.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

#### DESCRIPTION OF BUSINESS

The Company is a developer and provider of Linux-based operating software, embedded system technologies and solutions for the consumer electronics industry and the intelligent appliance market. The Company operates through its wholly-owned Washington State subsidiary Empower Technologies, Inc. ("Empower US"), and indirectly; Empower Technologies (Canada) Inc. ("Empower Canada") and Linux DA (Shanghai) Inc. ("Empower Shanghai"). The Company trades on the TSX Venture Exchange under the symbol EPT.

#### PERFORMANCE SUMMARY

Since the Company accelerated its efforts to develop new products and commercialize its technologies, the total expenses excluding Stock-Based Compensation and amortization of research and development costs increased to (\$793,104) compared to (\$296,976) for the three month period ended March 31, 2004. Revenue decreased to \$32,673 compared to \$43,074 for the three month period ended March 31, 2004 due to the Company phasing out PowerPlay Vs.

As at March 31, 2005, the Company had \$799,501 cash on hand compared to \$1,243,042 at December 31, 2004. The decrease was primarily attributed to the increase in general and administrative expenses in the first quarter of 2005. The Company expects overall operating expenses will increase due to the addition of staff and the expansion of the Company.

Furthermore, during the 1st quarter of 2005, the following events took place:

1. The Company unveiled a newly designed corporate website. This modern, newly designed site ([www.empowertechnologies.com](http://www.empowertechnologies.com)) integrates expanded company information and positions its product offerings, echoing the progressive innovations associated with embedded technologies. Loaded with new features and expanded product information, the site will launch Empower into a new level of intelligent electronics including home audio, portable communication and custom Linux-based embedded solutions. The corporate website represents the initial segment of a phased web enhancement program which will see revitalized creative concepts for both the LinuxDA ([www.linuxda.com](http://www.linuxda.com)) and PowerPlay ([www.powerplaydevices.com](http://www.powerplaydevices.com)) websites.

2. Empower Technologies exhibited at the Consumer Electronics Show in Las Vegas in January, 2005. It debuted The Osaka Project at the unveiled event at the Consumer Electronics Show (CES). The Osaka Project was also showcased inside the Texas Instruments booth's New Products session. With CD, DVD and MP3 and clock radio capabilities, the Osaka Project is a compact, all-digital audio system. Supporting a wide range of sound functions, it integrates all the elements of personal and home audio, in addition to a PDA with QVGA display.
3. Empower US participated in the Embedded World Conference in Nuremberg, Germany. Co-exhibiting with Texas Instruments, Empower showcased the power of the LEOs Development Kit for OMAP5910 (LDK5910) for the first time to European audiences.
4. Empower US appeared at the Embedded Systems Conference (ESC) in San Francisco. With a focus on showcasing the power and versatility of the LDK5910 and LEOs-based embedded applications, Empower exhibited in the Texas Instruments (TI) DSP Third Party Pavilion.

## RESULTS OF OPERATIONS

	Three Month Period Ended March 31, 2005	Year Ended December 31, 2004	Three Month Period Ended March 31, 2004
Sales			
Canada	\$ 7,757	\$ 124,115	\$ 33,588
People's Republic of China	-	-	-
United States of America	24,916	46,254	9,486
	<u>32,673</u>	<u>170,369</u>	<u>43,074</u>
Costs of Sales	27,665	130,136	26,955
Gross Margin	<u>5,008</u>	<u>40,233</u>	<u>16,119</u>
Total expenses with stock-based compensation	(904,678)	(3,116,256)	(1,316,417)
Total expenses without stock-based compensation	(793,104)	(2,255,159)	(455,320)
Total expenses without stock-based compensation, R&D costs, and amortization of research and development costs	(491,795)	(1,485,117)	(180,574)
Income (Loss) for the period			
Canada	(737,392)	(2,941,390)	(1,158,956)
People's Republic of China	(58,354)	(527,094)	(22,711)
United States of America	(103,724)	(1,382,346)	(118,400)
	<u>\$ (899,470)</u>	<u>\$ (4,850,830)</u>	<u>\$ (1,300,067)</u>

## Revenue

Revenues generated for the three months ended March 31, 2005 were \$32,673 compared with revenues for the three months ended March 31, 2004 of \$43,074. This decrease is attributed to the phasing out of PowerPlay Vs.

The company anticipates revenue to be improved through its plans to: introduce new products using LEOs; move aggressively to set up a strong marketing and sales base in North America; and introduce the new LDK5910 Development Kit.

## Costs of Goods Sold

The gross margin for the three months ended March 31, 2005 decreased due to the low margin of the Spherex X-Box 5.1 Surround Sound System.

## General and Administrative

General and administrative expenses without the stock-based compensation for the three months ended March 31, 2005 increased to \$793,104 (2004 - \$455,320). Wages and benefits increased to \$176,404 (2004 - \$42,741), reflecting staff additions in all areas of the company and the expansion of the Shanghai office; advertising and promotion increased to \$43,244 (2004 - \$29,377) due to the company's effort to commercialize its technologies; and travelling expenses increased to \$59,867 (2004 - \$9,188) due to management's efforts to promote and market products and attending tradeshows.

Management believes that future general and administrative costs will increase due to the addition of staff and the expansion of the company.

## Research and Development

Research and Development expenses ("R&D expenses") relating to the development of Linux-based embedded system technologies, the development of LEOs, the LDK5910 Development Kit, and new products using LEOs are expensed as incurred unless they meet Canadian generally accepted accounting principles for deferral and amortization.

R&D expenses for the three month period ended March 31, 2005 were \$301,309 compared to \$116,402 for 2004. This increase is attributed to the Company accelerating its efforts to develop new products.

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004
Equipment and supplies	\$ 25,046	\$ 6,558
Rent	12,656	7,134
Salaries and benefits	180,499	47,750
Technical consulting fees	83,108	54,960
	<u>\$ 301,309</u>	<u>\$ 116,402</u>

## SIGNIFICANT PROJECTS

### LinuxDA Embedded O/S (LEOs)

Empower US has introduced a 32 bit embedded version of LEOs, optimized for the Texas Instruments (“TI”) OMAP5910 processor. LEOs for the OMAP5910 development platform debuts in Empower’s next generation of PowerPlay PDA devices.

### LDK5910 Development Kit

Empower US is working on a LEOs for TI OMAP5910 Development Kit (LDK5910). This kit will enable electronic manufacturers and developers to develop new products using the TI OMAP5910 dual core processor with LEOs as the operating software. The kit comes with hardware development boards using, TI OMAP5910 and a CD with LEOs and the SDK (Software Development Kit). The manufacturer's suggested retail price is \$900 USD. LEOs for TI OMAP5910 initiates a new level of performance expectations for intelligent devices with increased headroom for applications and expansion capabilities for other functions.

### Osaka Project

With CD, DVD, MP3 and clock radio capabilities, the Osaka Project is a compact, all-digital audio system. Supporting a wide range of sound functions, it integrates all the elements of personal and home audio, in addition to a PDA with QVGA display. Powered by LEOs for the TI OMAP5910 dual core processor, the Osaka Project increases digital audio decoding standards. The Osaka Project fulfils the needs and demands of the cutting edge consumer.

### PowerPlay 1x

This new mobile data terminal model is still under development. Besides the regular PDA functions, this new model will have wireless communication capability.

## SUMMARY OF QUARTERLY RESULTS

---

---

	Three Months Ended March 31, 2005	Three Months Ended December 31, 2004	Three Months Ended September 30, 2004	Three Months Ended June 30, 2004
Total assets	\$ 1,689,982	\$ 2,042,132	\$ 4,184,716	\$ 2,359,470
Stock Based Compensation	111,574	-	-	-
Write-off of deferred costs	-	1,741,778	-	-
Working capital	1,041,987	1,134,756	2,361,674	266,393
Shareholders' equity	594,560	680,673	2,881,332	920,923
Revenues	32,673	31,241	82,185	13,869
Net Loss	(899,470)	(2,218,543)	(731,363)	(600,857)
Loss per share	(0.03)	(0.08)	(0.03)	(0.03)

---

---

	Three Months Ended March 31, 2004	Three Months Ended December 31, 2003	Three Months Ended September 31, 2003
Total assets	\$ 2,821,999	\$ 2,299,123	\$ 2,801,870
Stock Based Compensation	861,097	805,865	-
Amortization of Deferred development costs	-	158,344	-
Working capital	694,898	279,828	688,658
Shareholders' equity	1,459,425	954,681	1,452,645
Revenues	43,074	133,465	414
Net Loss	(1,300,067)	(1,408,604)	(29,326)
Loss per share	(0.06)	(0.09)	(0.01)

Significant changes in key financial data in 2005 can be attributed to the implementation of stock-based compensation, and the Company accelerating its efforts to develop new products.

## LIQUIDITY

The Company has financed its operations to date primarily through the issuance of common shares and the exercise of warrants. The Company continues to seek capital through various means including the issuance of equity and/or debt.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

	As at March 31, 2005	As at March 31, 2004
Deficit	\$ (9,079,439)	\$ (4,634,079)
Working capital	\$ 1,041,987	\$ 694,898

Net cash used in operating activities for the three month period ended March 31, 2005 was \$1,128,278 compared to net cash used of \$210,915 for the three month period ended March 31, 2004. The cash used in operating activities for the period consists primarily of the operating loss and a change in non-cash working capital.

Net cash used for investing activities for the three month period ended March 31, 2005 was \$7,977 compared to net cash used by investing activities of \$13,943 for the three month period ended March 31, 2004. The cash used during the current period consists primarily of the purchase of property and equipment.

Net cash provided by financing activities for the three month period ended March 31, 2005 was \$692,714 compared to net cash provided by financing activities of \$1,037,331 for the three month period ended March 31, 2004. The cash provided during the current period consists primarily of proceeds from the exercise of the warrants.

As at March 31, 2005, the Company had \$799,501 in cash. The Company has been incurring operating losses at the average rate of \$185,373 per month over the last three months.

## CAPITAL RESOURCES

The authorized capital of the Company consists of 100,000,000 common shares without par value. As at March 31, 2005, there are 29,711,487 common shares issued and outstanding.

## OUTSTANDING SHARES

As at March 31, 2005, the Company has shares outstanding as followings:

	Shares
Authorized	
100,000,000 common shares without par value	
Balance, December 31, 2002	14,614,665
Common shares of the Company at September 19, 2003	1,200,318
Common shares of Empower US	(14,614,665)
Shares issued on acquisition of Empower US	14,614,665
Initial public offering	4,874,252
Exercise of warrants	274,714
Agent shares issued pursuant to the initial public offering	200,000
	<hr/>
Balance, December 31, 2003	21,163,949
Short form offering	1,049,000
Exercise of warrants	6,794,005
Exercise of options	1,666
	<hr/>
Balance, December 31, 2004	29,008,620
Exercise of warrants	701,200
Exercise of options	1,667
	<hr/>
Balance, March 31, 2005	29,711,487

## RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued wages and benefits of \$43,050 (three month period ended March 31, 2004 - \$39,000) to directors and officers of the Company.
- b) Paid or accrued interest of \$19,586 (three month period ended March 31, 2004 - \$24,062) to a director of the Company.
- c) Paid or accrued directors' fees of \$30,000 (three month period ended March 31, 2004 - \$Nil) for services provided by directors of the Company.
- d) Recorded stock-based compensation of \$111,574 (three month period ended March 31, 2004 - \$861,097) for options granted to an officer of the Company.

Included in research development expenses are wages and benefits of \$27,000 (March 31, 2004 - \$18,000) to an officer of the Company.

Empower US previously entered into service and research and development agreements with various companies related by virtue of a common director. The agreements will remain in effect until terminated by both parties.

These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties. In general, the Company conducts these transactions on terms similar to those that would be encountered were the transactions conducted with arm's length parties.

The amount due to related party \$804,928 is payable to a director of the Company, bears interest at the rate of 9.5%, is secured by the assets of Empower US, and is payable in quarterly instalments of US\$50,000 beginning on January 1, 2005. Interest shall be payable monthly commencing February 1, 2005.

Pursuant to a General Security Agreement dated March 31, 2002, security, in the form of Empower US's assets, was granted by Empower US in favour of a director of the company, for all funds loaned pursuant to a Loan Agreement between Empower US and the director.

## **OFF-BALANCE SHEET ARRANGEMENT**

The Company has no off-balance sheet arrangements.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

### Inventories

Finished goods are stated at the lower of average cost and net realizable value. Cost is determined on a first in, first out basis.

### Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining balance method at the following annual rates:

Computer equipment	30%
Furniture and equipment	20%
Leasehold improvements	25%
Tools	20%

### Revenue recognition

The company records revenue when services have been completed, a sales invoice has been rendered, transfer of title has occurred and collection of the amount is reasonably assured.

### Income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

### Foreign currency translation

The company's activities denominated in currencies other than Canadian dollars are translated as integrated operations using the temporal method. Under this method, monetary items are translated into Canadian dollar equivalents at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical rates, and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations. Exchange gains or losses arising on translation of foreign currency items are included in operating results.

### Stock-based compensation

The Company uses the fair-value method of accounting for all stock-based compensation.

## **FINANCIAL INSTRUMENTS**

The company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, loan payable, obligations under capital lease and due to related party. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

The company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The company does not use derivative instruments to reduce its exposure to foreign currency risk.

## **SUBSEQUENT EVENT**

The Company granted Coal Harbor Communications Inc., an investor relations services provider, stock options for 60,000 shares exercisable for one year. The stock options are valued at \$27,241 based on the fair-value method of accounting for all stock-based compensation.

The Company has received the receipt for filing the final prospectus with the British Columbia, Alberta and Ontario Securities Commissions offering 3,333,333 units at \$2.25 per unit. Each unit consists of one common share and one-half of one non-transferable warrant. Each whole warrant will entitle the holder to purchase one additional common share, for a period of 12 months from the date of completion of this offering at a price of \$2.50 per share. Pursuant to an Agency Agreement with Canaccord Capital Corporation (the "Agent"), the Agent will receive a commission of 7.5% of the gross proceeds, be paid a cash administration fee of \$7,500, and be issued non-transferable warrants equal to 12% of the units sold in the offering on the same terms exercisable for a period of 12 months from the date of completion of this offering. The Agent will also be receiving a corporate finance fee, payable in units of the issuer of 50,000 units on closing of the offering. The cost of the public offering excluding the Agent's commissions and expenses is estimated to be a total of \$150,000.